

Date: 15 March 2016

Item: **The Commissioner's Performance Assessment – A New Approach**

This paper will be considered in public

1 Summary

- 1.1 This paper sets out options and recommendations for a change to the basis of performance assessment used to determine the Commissioner's annual performance award. Previously the assessment has been based solely upon the outturn of the TfL Scorecard. It is recommended that in future the performance assessment is made up of a combination of both the TfL scorecard outturn as well as performance against a number of personal priorities and objectives agreed with the Mayor.

2 Recommendation

- 2.1 **The Committee is asked to agree to a combination of the TfL group balanced scorecard and individual objectives as the basis for future performance assessment for the Commissioner, as set out in Section 5 of the paper.**

3 Background

Commissioner's Performance Assessment – Current Approach

- 3.1 The Commissioner is entitled, at the discretion of the Remuneration Committee, to a maximum potential performance award equivalent to 50 per cent of base salary. Under current arrangements established with the previous Commissioner, the Commissioner's performance assessment was measured solely against the TfL group scorecard, as shown at Appendix 1.
- 3.2 Under this arrangement the TfL scorecard outturn was applied directly to the Commissioner's performance award multiple. Hence a scorecard outturn of 80 per cent delivered an actual performance award of 40 per cent (i.e. 50 per cent x 0.8).
- 3.3 A balanced scorecard provides the clearest indication of organisation performance in TfL given that TfL's purpose is not to make profits in the same way that its commercial counterparts do and hence financial measures alone cannot be used to determine relative performance.

- 3.4 Using a balanced scorecard approach to calculate the Commissioner's performance award is therefore logical given that across general industry the performance of the Chief Executive Officer (CEO) tends to be perceived by the overall success of the business.
- 3.5 The key benefit of using the balanced scorecard approach is its obvious transparency. The TfL scorecard reflects TfL's performance across a number of hard measures for Customer, Delivery, People and Value and provides a very clear view of organisation performance in critical areas.
- 3.6 This approach also provides a relatively objective assessment of performance by using an assessment method in which minimal discretion is applied in the determination of the outturn score.

Limitations of the Current Approach

- 3.7 A drawback of the current approach is that the TfL Scorecard does not fully reflect the entire role of the Commissioner and hence the full range of performance required from it. In reality there are a far greater number of priorities that the Commissioner is asked to fulfil by the Board and the Mayor. However, there is no formal means of assessing performance in these areas.
- 3.8 Similarly, the current approach does not permit a full understanding of how the role of the Commissioner contributes to the overall success of TfL and hence the true value that the incumbent contributes to the organisation.

Market Practice

- 3.9 Guidance from our Remuneration Consultant, New Bridge Street, suggests that across FTSE 100 organisations the use of strategic/operational targets (e.g. portfolio restructuring, operational effectiveness, executing a new project) and other non-financial metrics (e.g. health and safety, environmental targets, customer satisfaction) is increasing in the assessment of CEO performance. Personal performance measures were used by around 50 per cent of companies in 2014, and this has increased to 57 per cent in 2015.
- 3.10 Where strategic, non-financial or personal performance conditions are used, they tend to have a minority weighting, typically between 10 per cent and 30 per cent of the overall performance assessment. Market practice for weighting of personal performance metrics, where used, is c. 20 per cent to 25 per cent of the overall assessment.

4 Options for Consideration

- 4.1 There are three potential options:
 - (a) Option 1 – No change (continue to use the TfL group balanced scorecard as the sole means for assessing the Commissioner's performance);

- (b) Option 2 – Use the personal priorities and individual objectives established between the Mayor and the Commissioner as the sole basis for future performance assessment; and
- (c) Option 3 – Use a combination of the TfL group balanced scorecard and individual objectives as the basis for future performance assessment.

4.2 Option 2 is not recommended as it would be highly unusual for any organisation to assess its CEO purely on personal performance metrics. From the information received on market practice, it is evident that where personal performance metrics are used these tend to represent a minority weighting in an overall assessment that includes wider organisational and financial performance measures.

5 Recommended Approach for the Commissioner's Performance Assessment

5.1 It is proposed that a more holistic approach to performance assessment for the Commissioner role is now adopted. **Option 3**, with its combination of personal performance and TfL scorecard metrics is recommended to the Committee.

5.2 This approach would combine both the existing method for the TfL Scorecard outturn along with an assessment of the Commissioner's personal performance against a number of individual priorities and objectives.

5.3 The current personal priorities for the new Commissioner set out by the Mayor for the remainder of 2015/16 are set out in Appendix 2. For future years, it is suggested that personal priorities are proposed by the Mayor for review and approval by the Committee, to ensure that they are in accordance with the Mayor's Transport Strategy and the TfL Business Plan.

5.4 It is appropriate for there to be a significant read through to senior managers and the organisation of the importance still attached to day to day service performance and in capital programme delivery. It is therefore important that the TfL scorecard is still the major component of any performance award for the Commissioner.

5.5 It is proposed that the weighting in performance assessment between the TfL Scorecard and the personal priorities is split 75:25 respectively, so that the maximum opportunity for the scorecard element is 37.5 per cent of base salary (50 per cent x 0.75) whilst the maximum opportunity for the personal priorities is 12.5 per cent of base salary (50 per cent x 0.25), making up the combined maximum performance award of 50 per cent of base salary.

5.6 The scorecard element of the performance award would be calculated as per the existing method so that the outturn score is used as a multiplication factor to calculate the performance award. For example, an 80 per cent scorecard result would deliver a potential award of 30 per cent of base salary (37.5 per cent x 0.8).

- 5.7 The Committee will be asked to directly assess the performance against the personal priorities and objectives. The Commissioner will provide a written submission to summarise his personal performance and contribution for the performance year in question. The Committee will then provide a decision on an overall score out of 100 per cent which will then be applied as a multiplication factor for this element. For example, if the Committee determines that a total score of 75 per cent is applicable for the personal priorities this would then deliver a potential award of 18.75 per cent of base salary (25 per cent x 0.75).
- 5.8 The Committee would maintain its existing discretion over any total performance award for the Commissioner but will now have a stronger basis from which to assess performance in the role.

List of appendices to this report:

TfL Scorecard 2015/16

The Commissioner's personal priorities 2015/16

List of Background Papers:

None

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TfL Scorecard - 2015/16

Appendix 1

Indicator	Unit of Measure	2014/15 Target	2014/15 Actual	2015/16 Target	Original Weighting %	2015/16 Forecast Result	Type of measure	Source for target
■ Customer								
London Buses - customer satisfaction	score	83	85	84	7.5%	84	Pass/Fail	Surface scorecard
London Underground - Overall Customer Satisfaction	score	83	84	84	7.5%	85	Pass/Fail	R&U scorecard
TLRN - customer satisfaction	score	75	74	74	5.0%	74	Pass/Fail	Surface scorecard
London Overground & TfL Rail Overall Customer Satisfaction	score	N/A	N/A	82	2.5%	83	Pass/Fail	R&U scorecard
■ Delivery								
% Reduction in KSI on London's roads	% reduction (2005-09 baseline)	35.1%	39.7%	40.0%	5.0%	41.6%	Pass/Fail	Surface scorecard
Recorded crime: London Buses	crimes/million p. journeys	7.4	7.2	7.2	5.0%	7.3	Pass/Fail	Surface scorecard
Recorded crime: London Underground/DLR	crimes/million p. journeys	7.4	7.1	6.8	5.0%	7.0	Pass/Fail	Surface
Significant Injuries per million hours on R&U	Injuries/m hours	0.55	0.31	0.40	2.5%	0.18	Pass/Fail	R&U scorecard
Hybrid Bus introduction	Total number	1,250	1,250	1,650	2.5%	1,650	Pass/Fail	Surface scorecard
London Buses: Excess Wait Time	mins	1.0	1.1	1.1	5.0%	1.2	Pass/Fail	Surface scorecard
London Underground: Total Lost Customer Hours	Millions of hours	19.8	22.7	18.8	5.0%	25.8*	Pass/Fail	R&U scorecard
TLRN: Journey Time Reliability	%	89%	88%	87.0%	5.0%	87%	Pass/Fail	Surface scorecard
TLRN Serious & severe disruption (unplanned)	Hours	N/A	N/A	2.0	2.5%	2.0	Pass/Fail	Surface scorecard
DLR: Departures	%	98.8%	99.3%	99.0%	1.0%	98.5%**	Pass/Fail	R&U scorecard
London Overground & TfL Rail Public Performance Measure	%	N/A	N/A	94.2%	1.5%	94.0%	Pass/Fail	R&U scorecard
% Budget milestones achieved	%	100%	92%	100%	12.5%	94%	Sliding Scale	GBP&P
Single Equality Scheme (SES)	%		N/A	90%	3.8%	85%	Pass/Fail	E&I
■ People								
Total Engagement	%	N/A	58%	59%	3.8%	60%	Pass/Fail	Viewpoint +1%
■ Value								
Forecast accuracy - Opex not in the IP*	%	100%	97.5%	100%	1.9%	1.44%	Sliding Scale	GBP&P
Forecast accuracy - Investment Programme (Opex and Capex)*	%	100%	92%	100%	1.9%	0.87%	Sliding Scale	GBP&P
Net commercial development income	£m	218	174	152	5.0%	£177m	Pass/Fail	Finance
Achievement of efficiency savings 2014/15	£m	1332	1446	1442***	3.8%	1445	Pass/Fail	GBP&P
Proportion of Business Plan efficiencies that remain unsecured	%	15%	15%	15%	5.0%	13%	Pass/Fail	GBP&P
Total Result					100%			

The Commissioner's Personal Priorities 2015/16

- delivering the start of Night Tube;
- progressing the preparatory and legislative work to enable Crossrail 2 to open in 2030;
- continuing to ensure that TfL's research, planning and messaging resources are committed to achieving the right aviation solution for London, both in opposing the recommendations of the Airports Commission and in promoting an effective hub alternative;
- an intensified focus on efficiencies, without compromising programmes. The cost review you have already set in train is a step in this direction;
- intensifying and improving our dialogue with Government at all levels, in particular with Treasury. This dialogue is especially needed on the new fiscal tools to capture land value, but also around grant levels and efficiency;
- changing how the capital programme is managed, which may include process and organisational changes, to get delivery more efficient and effective. There is a need to ensure best practice is achieved in the Surface capital programme given the exceptional new resources that have been made available to it in my second term;
- a broader look at the organisational structure of the organisation, particularly given the opportunities presented by changes at the MD level;
- a focus on Surface to tackle organisational, performance, and strategic issues. This includes improving the public narrative and perception on issues such as taxis, the New Bus for London, and congestion;
- making progress on options for the relocation of the Crossrail Depot at Old Oak Common;
- strengthening TfL's focus on the 'ancillary' benefits that transport investment brings. You talked in a very compelling way about the homes that can be unlocked through transport infrastructure, and embedding this more firmly in how TFL does business;
- recasting and getting out to stakeholders and the narrative on delivery since 2008, working closely with Will and Isabel in my team. This needs to be linked to the existing programme of announcements to the end of my term.